

Message Text

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ACTION STR-07

INFO OCT-01 IO-13 ISO-00 STRE-00 AGRE-00 CEA-01
CIAE-00 COME-00 DODE-00 EB-08 FRB-03 H-01 INR-10
INT-05 L-03 LAB-04 NSAE-00 NSC-05 PA-01 CTME-00
AID-05 SS-15 ITC-01 TRSE-00 ICA-11 SP-02 SOE-02
OMB-01 DOE-15 JUSE-00 OIC-02 AF-10 ARA-10 EA-10
EUR-12 NEA-10 /168 W
-----013193 141436Z /50

P 141420Z APR 78
FM USMISSION GENEVA
TO SECSTATE WASHDC PRIORITY 8394
INFO ALL EC CAPITALS

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USMTN USEEC

STR FOR ACTION

STR PASS CODEL

E.O. 11652: N/A
TAGS: MTN, ETRD, EEC
SUBJECT: US/EC BILATERAL CONSULTATIONS ON WINE GALLON/
- PROOF GALLON

1. IN COURSE OF BILATERAL CONSULTATIONS ON AGRICULTURAL PRODUCTS (SEPTTEL), EC RAISED ISSUE OF U.S. WINE GALLON/PROOF GALLON METHOD OF ASSESSMENT, CHARACTERIZING IT AS A QUESTION OF "VITAL IMPORTANCE". THE EC (MARINUCCI AND ABBOTT) SOUGHT CLARIFICATION AS TO HOW THE U.S. INTENDS TO CHANGE ITS SYSTEM. U.S. REP (WALLAR) CITED U.S. FORTHCOMING OFFER WITH RESPECT TO WINE GALLON METHOD OF ASSESSMENT AND REPORTED THAT INTERNAL DELIBERATIONS WERE IN PROGRESS
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TO EXPLORE HOW SYSTEM MIGHT POSSIBLY BE CHANGED. IN ORDER TO FACILITATE SUCH CONSIDERATIONS, THE U.S. ASKED FOR A CLEARER INDICATION OF WHAT CHANGES THE EC DESIRED, NOTING THAT THE EC REQUEST WAS SOMEWHAT VAGUE ON THIS POINT. THERE ENSUED A BRIEF EXCHANGE ON THE NATURE OF THE SYSTEM, WITH THE EC ASSERTING THAT THE SYSTEM WAS BASICALLY DISCRIMINATORY AGAINST

BOTTLED IMPORTS WITH THE U.S. CONTENDING THAT THE SYSTEM WAS NON-DISCRIMINATORY WITH RESPECT TO SIMILAR PRODUCTS WHETHER PRODUCED IN THE DOMESTIC OR IN A FOREIGN MARKET. EC OBSERVED THAT THE U.S. MOVEMENT TO A PROOF GALLON METHOD OF ASSESSMENT ACROSS-THE-BOARD WOULD PROVIDE EQUAL TREATMENT TO IMPORTS OF DISTILLED SPIRITS UNDER 100 PROOF AS WITH SIMILAR DOMESTIC SPIRITS. IN RESPONSE TO U.S. QUESTION, ABBOTT CONCEDED THAT THE U.S. OFFER WAS RESPONSIVE TO WHAT THE EC HAD BEEN SEEKING. THIS HAVING BEEN SAID, THE EC PRESSED TO KNOW HOW THE U.S. ENVISAGES MAKING THE CHANGE, I.E. CONVERSION TO PROOF GALLON WITH AN INCREASE IN EXCISE TAX, INCREASE DUTIES OR A COMBINATION. MARINUCCI QUERIED WHETHER THE U.S. FORESEES ANY TECHNICAL LEGAL DIFFICULTIES IN MAKING A CONVERSION TO PROOF GALLON. U.S. SAID THAT IT WAS NOT IN A POSITION TO DISCUSS THE VARIOUS OPTIONS FOR POSSIBLE IMPLEMENTATION UNDER CONSIDERATION, BUT, GIVEN EC'S ANXIOUSNESS TO NEGOTIATE ON THE MATTER, PROMISED TO HAVE FOLLOW-UP SESSION WHEN USG POSITION IS FURTHER DEVELOPED.

2. U.S. DEL TOOK THE OPPORTUNITY TO RAISE U.S. REQUESTS ON CERTAIN NON-TARIFF MEASURES MAINTAINED BY EC MEMBER STATES, MAKING THE GENERAL COMMENT THAT U.S. DOMESTIC INTERESTS SUPPORTING RETENTION OF WINE GALLON METHOD OF ASSESSMENT HAD AN INTEREST IN THESE FOREIGN MEASURES. LIMITED OFFICIAL USE

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U.S. OBSERVED, HOWEVER, THAT THE EC MEASURES AFFECT ONLY \$15 MILLION OF U.S. EXPORTS AS COMPARED WITH \$425 MILLION OF EC EXPORTS AFFECTED BY THE U.S. WINE GALLON MEASURE. THEREFORE, THE U.S. WOULD BE LOOKING TO OTHER AREAS FOR COMPENSATION AS WELL. ABBOTT QUESTIONED WHETHER SECTORS NEED TO BE "BALANCED" AND ASKED WHETHER THE U.S. IS LINKING ITS OFFER ON WINE GALLON WITH MEMBER STATE ACTION ON THEIR MEASURES AFFECTING ALCOHOLIC BEVERAGES. ABBOTT QUESTIONED THE EXTENT TO WHICH COMPENSATION WOULD BE DUE SINCE THE TRADE IMPACT OF CHANGING WINE GALLON IS SUBJECT TO SPECULATION. THE U.S. RESPONDED THAT THE TOPIC WAS BEING APPROACHED IN A NEGOTIATING CONTEXT AND THAT A WIDE RANGE OF FACTORS HAD TO BE TAKEN INTO ACCOUNT AS THE U.S. FURTHER ELABORATES ITS INITIAL OFFER. ON THE QUESTION OF TRADE IMPACT, U.S. DEL RECITED STATISTICS FURNISHED BY THE EC AT AN EARLIER AGRICULTURE CONSULTATION (INCREASE IN TRADE OF 70 MILLION BRITISH POUNDS FOR SCOTCH WHISKY AND 50 MILLION FRENCH FRANCS FOR BRANDY) AS EVIDENCE THAT SOME WORK HAD ALREADY BEEN DONE ON THE QUESTION.

4. IN PRIVATE DISCUSSION AFTER THE MEETING ABBOTT

AGAIN STRESSED THE EC DESIRE TO GET DOWN TO SUBSTANTIVE
NEGOTIATIONS ON THIS ISSUE. ABBOTT REMARKED THAT A
MULTILATERAL MEETING MAY BE A WAY OF INCREASING PRESSURE
ON THE UNITED STATES TO CHANGE THIS MEASURE AND, IF
THE ISSUE OF COMPENSATION IS PURSUED, ABBOTT OPINED
THAT A MULTILATERAL MEETING COULD BE USED TO ENSURE
THAT BENEFICIARIES OF THE CHANGE WERE NOT PAYING MORE
THAN THEIR PROPORTIONATE SHARE.

5. COMMENT: GIVEN THE IMPORTANT NATURE OF THIS U.S.
NTM WHICH COULD HAVE A SIGNIFICANT IMPACT ON TONE
OF NEGOTIATIONS WITH THE EC, U.S. MTN DEL URGES THAT
USG FURTHER DEVELOP ITS POSITION ON THE NATURE OF
POSSIBLE CHANGES. THE PRECISE MODALITIES FOR CHANGE
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WILL BE AN IMPORTANT FACTOR IN THE NEGOTIATION. FOR

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EXAMPLE, THE EC GAVE A STRONG IMPRESSION THAT IF MEASURES WERE TAKEN TO OFFSET THE LOSS OF REVENUE CAUSED BY CONVERSION TO A PROOF GALLON SYSTEM, THEN, IN THEIR VIEW, THE QUESTION OF COMPENSATION WOULD BE LESS IMPORTANT. IN ADDITION, ANY PRECISE LINKAGES WITH U.S. REQUESTS ON EC NTM'S AND WITH OTHER CONCESSIONS U.S. IS SEEKING FROM THE EC ARE IMPORTANT ELEMENTS TO GET DOWN TO HARD NEGOTIATIONS.

6. DRAFTED BY WALLAR. MCDONALD

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